

January 28, 2025

Kashipur Sitarganj Highways Private Limited: Rating upgraded to [ICRA]BB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	326.71	321.19	[ICRA] BB+ (Stable); upgraded from [ICRA] BB (Stable)
Long-term – Non-convertible debenture (NCD) [§]	51.00	50.31 [^]	[ICRA] BB+ (Stable); upgraded from [ICRA] BB (Stable)
Total	377.71	371.50	

*Instrument details are provided in Annexure I; § NCDs are unlisted; ^No partial withdrawal and rated amount is reduced to outstanding amount due to scheduled repayments.

Rationale

The rating upgrade for Kashipur Sitarganj Highways Private Limited (KSHPL) factors in the improvement in the business profile of the toll road project on the back of its stabilisation of operations as reflected by improved cash flows and an extension in its concession period by 4.2 years. The company registered a healthy growth of ~36% in its toll revenue on the back of an increase in the toll fee by ~28% across vehicle categories from January 01, 2023, post completion of the entire project stretch in December 2022. The growth in traffic as characterised by passenger cars unit (PCU) increased by ~9% to 19,362 in FY2024 (from 17,748 in FY2023, which in turn grew by ~14%), which is expected to rise by ~5% in FY2025 with an average daily toll collection inching towards Rs. 20 lakh/day. The rating action derives comfort from the extension of the concession period to 2039 (initially till 2035) due to adverse impact on the traffic volume during FY2020-FY2023. Consequently, with no change in debt repayment schedule, the project now has a debt-free tail period of around four years resulting in the project life coverage ratio (PLCR) jumping to 1.6 times (from 1.2 times prior to extension). The rating derives comfort from the operational nature of the four-lane project with a toll collection track record of more than six years, and its attractiveness as a part of the national highway network connecting important industrial areas in Uttarakhand and Uttar Pradesh.

The rating, however, remains constrained by the moderate debt coverage metrics, with near-term debt service coverage ratio (DSCR) likely to remain muted owing to cash outflow towards ongoing major maintenance (MM) capex. The company commenced its first MM cycle in FY2024 on 63.5 km stretch (operational since August 2017), which was paused for around a year and has been recently restarted in November 2024. The same is expected to be completed within Q1 FY2026. Nevertheless, ICRA derives comfort from the adequacy of required funds for the ongoing MM capex. Going forward, the company's ability to manage routine and periodic maintenance and MM expenses within the budgeted levels will remain a key monitorable in the near to medium term.

The rating factors in the risks inherent in build-operate-transfer (BOT - toll) road projects, including risks arising from variation in traffic volume over the project stretch and its dependence on the economic activity in the surrounding regions, movement in WPI (for toll rate hike), political acceptability of toll rate hikes over the concession period, development or improvement of alternative routes, likelihood of toll leakages and cyclicity in traffic. The sustainability of traffic and toll collections post the toll rate hikes will be important to maintain the credit profile. In this regard, ICRA notes that the alternative stretches are longer, which mitigates the risk of traffic diversion to an extent. The credit profile remains exposed to interest rate risk, as the term loan carries floating interest rate. The project witnessed pressure on its liquidity and irregularity in debt servicing in the past due to high leverage and lower-than-envisaged toll collections. However, the cash flow and leverage position has improved over the last two years. Further, the presence of funded debt service reserve account (DSRA) equivalent to one quarter's principal and interest obligations mitigates the risk of short-term cash flow mismatches.

The Stable outlook on the rating reflects ICRA's expectation that the company would witness a steady increase in toll collections on the project stretch, given party of national highway network, and will be able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Operational four-lane national highway project with proven toll collection track record, coupled with extension of concession period – The Kashipur-Sitarganj section is an important arterial national highway in Uttarakhand. The project stretch has low alternative route risk, as the alternative routes are longer by 15%-20%. The project, which involved four-laning of the stretch, was awarded by the NHAI on BOT-Toll basis. KSHPL completed the work and achieved PCOD for the project in two parts – PCOD-I was received on August 18, 2017 for 63.5 km (~82% of the total tollable length of 77.2 km), while PCOD-II was received for the incremental 13.3 km of length on December 30, 2022, with a total tollable length of 76.8 km (~99%). The balance 0.4 km of the length is excluded from the tollable length of the highway due to land acquisition issue. The final COD is still awaited. With PCOD-I achieved in August 2017, the project has been operational and has been collecting toll for more than seven years. The operating income grew by ~36% to Rs. 68.3 crore in FY2024 (from Rs. 50.0 crore in FY2023) and is expected to grow by ~7% in FY2025. The rise in toll revenue is driven by increase in toll fee by ~28% across vehicle categories from January 01, 2023, post completion of the entire project stretch in December 2022 as well as growth in traffic as characterised by PCU increasing by ~9% to 19,362 in FY2024 (from 17,748 in FY2023, which in turn grew by ~14%). The same is estimated to grow by ~5% in FY2025 with average daily toll collection inching towards Rs. 20 lakh/day.

Recently, the company received the approval from the NHAI for an extension in the concession period by 4.2 years to 2039. The extension has been granted due to adverse impact on the traffic volume during FY2020-FY2023 as per the concession agreement. Consequently, with no revision in debt repayment schedule, the project now has a debt-free tail period of around four years resulting in the PLCR jumping to 1.5 times (from 1.2 times prior to extension).

Presence of structural features including DSRA and provision for MMR – As per the debt structure, the company has been maintaining DSRA equivalent to one quarter's principal and interest obligations, which provides comfort to meet short-term cash flow mismatches. Further, the rating draws comfort from the presence of other structural features of the debt, including the presence of cash flow waterfall mechanism, provision for creation of major maintenance reserve (MMR) and any surpluses (after considering the cash flow waterfall mechanism), which will be first used to create a contingency reserve of Rs. 10 crore.

Credit challenges

Moderate debt coverage indicators – The project has witnessed pressure on its liquidity and irregularity in debt servicing in the past due to high leverage and lower-than-envisaged toll collections. However, the cash flow and leverage position has improved over the last two years. Nevertheless, KSHPL's coverage metrics are projected remain moderate, with cumulative DSCR within 1.3-1.4 times over the tenure of the term loans. The near-term DSCR likely to remain muted owing to cash outflow towards the ongoing MM capex. Further, sustainability of the recent improvement in the toll collections remains to be seen.

Risks inherent to toll road projects – The project is exposed to risks inherent in BOT (toll) road projects, including risks arising from variation in traffic volume over the project stretch and its dependence on the economic activity in the surrounding regions, movement in WPI (for toll rate hike), political acceptability of toll rate hikes over the concession period, development/improvement of alternative routes and likelihood of toll leakages. The toll rates for the users will increase sharply in line with the toll policy for national highways with the entire project stretch becoming operational, which may result in some diversion of traffic to alternative routes. However, the existing alternative stretches are longer, which mitigates the risk to an extent.

O&M related and interest rate risk – The company, like any road project, is exposed to the operations and maintenance (O&M) risk associated with the project, including its ability to undertake the routine and periodic maintenance within the stipulated time and budget. It is currently undertaking the first MM exercise on 63.5 km stretch (operational since August 2017). The exercise is expected to be completed within Q1 FY2026. The MM is being carried out through a fixed-price contract with the company's parent, Galfar India, which will mitigate the risk to an extent. However, the ability to complete the same within the budgeted cost would be crucial to maintain the coverage and liquidity profile. ICRA expects KSHPL to maintain adequate reserves for the MM. Further, it is exposed to the interest rate risk on account of the floating nature of interest rates on the term loan.

Liquidity position: Adequate

KSHPL's cash flows available for debt servicing are expected to be adequate to meet the debt servicing obligations. This apart, it has a funded DSRA of Rs. 11.19 crore as on December 31, 2024, which is equivalent to cover one quarter's principal and interest, along with unencumbered cash and additional liquid investments of ~Rs. 12.51 crore as on December 31, 2024. Additionally, the company had MMR of Rs. 22.6 crore as on December 31, 2024 for the ongoing MM cycle.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a steady growth in toll collections, resulting in an improvement in the cumulative DSCR on a sustained basis. Additionally, timely completion of the ongoing MM cycle, within the budgeted cost, will be a key monitorable.

Negative factors – Pressure on the rating could emerge in case of lower-than-expected toll collection growth on a sustained basis, or if the O&M and MM expenditure is significantly above the budgeted costs resulting in compression of the cumulative DSCR to less than 1.15 times. Additional indebtedness or non-adherence to debt structure will result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology BOT Toll Road Projects in India
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

KSHPL is a special purpose vehicle (SPV), promoted by Galfar Engineering & Contracting (India) Private Limited and Galfar Engineering & Contracting SAOG, for four laning of Kashipur - Sitarganj Section of NH-74 from Km 175.000 to Km 252.200 in Uttarakhand and Uttar Pradesh under NHDP Phase IV on Design, Build, Finance, Operate and Transfer (DBFOT) toll basis. The project highway covers a length 72.266 km in Uttarakhand and a length of 4.934 km in Uttar Pradesh. The project road traverses through the built-up areas of Khanpur, Danpur, Rudrapur, Rampura, Lalpur, Kichha, Uttam Nagar, Bara, Sisaiya and bypasses Bazpur Doraha, Kelakhera and Gadarpur. The concession period for the project is 25.2 years (after extension) from the appointed date of March 05, 2014.

Key financial indicators (audited)

KSHPL	FY2023	FY2024
Operating income (OI)	50.1	68.3
PAT	-11.8	-2.1
OPBDIT/OI	78.9%	85.2%
PAT/OI	-23.6%	-3.0%
Total outside liabilities/Tangible net worth (times)	6.1	6.3
Total debt/OPBDIT (times)	10.3	6.9
Interest coverage (times)	1.5	2.0

Source: Company data, ICRA Research

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation,

Status of non-cooperation with previous CRA

India Ratings and Research (Ind-Ra), in its press release dated October 31, 2023, has maintained Kashipur Sitarganj Highways Pvt Ltd's bank loan's rating at IND-D, ISSUER NOT COOPERATING citing that the issuer did not participate in the surveillance exercise, despite continuous requests and follow-ups by the agency.

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)		Chronology of rating history for the past 3 years							
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term Loan	Long term	321.19	28-Jan-2025	[ICRA] BB+ (Stable)	27-Feb-2024	[ICRA] BB (Stable)	27-Feb-2023	[ICRA] BB (Stable)	-	-
NCD	Long term	50.31	28-Jan-2025	[ICRA] BB+ (Stable)	27-Feb-2024	[ICRA] BB (Stable)	27-Feb-2023	[ICRA] BB (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Non-convertible debenture	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2014-FY2015	-	FY2033	321.19	[ICRA]BB+ (Stable)
INE445P07014	NCD*	11-Mar-2022	0.01%	28-Feb-2035	50.31	[ICRA]BB+ (Stable)

Source: Company; * Un-listed

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis - Not applicable

ANALYST CONTACTS

Ashish Modani

+91 22 6169 3328

ashish.modani@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Manish Pathak

+91 124 4545 397

manishp@icraindia.com

Devansh Jain

+91 124 4545 856

devansh.jain@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+912261143406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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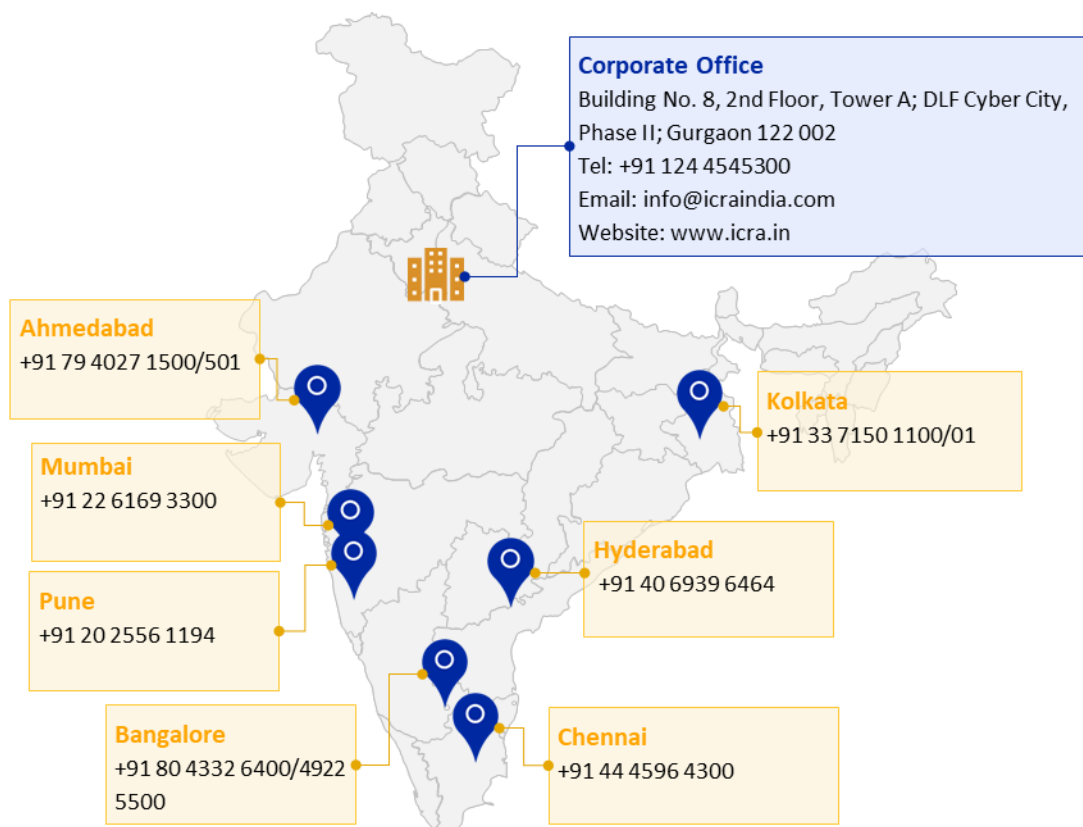


Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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